

**THE ASSESSMENT OF THE SUITABILITY OF MICROFINANCE
INSTITUTIONS ON POVERTY ALLEVIATION AMONG RURAL
COMMUNITIES IN TANZANIA. THE CASE OF KYELA
DISTRICT, MBEYA REGION**

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**A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF
REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS
ADMINISTRATION (MBA-FINANCE) OF THE OPEN UNIVERSITY OF
TANZANIA.**

2015

CERTIFICATION

The undersigned certifies that he has read and hereby recommends for acceptance by the Open University of Tanzania, a dissertation entitled *The Assessment of the Suitability of Microfinance Institutions on Poverty Alleviation among Rural Communities in Tanzania. The Case of Kyela District, Mbeya Region* in partial fulfilment of the requirements for the degree of Master of Business Administration (MBA-FINANCE)

Prof. Benedict. L. K. Mwaibasa

(Signature)

Date

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DECLARATION

I, **Mponda, Fauzi Omari**, hereby declare that this dissertation is my own original work and that it has not been presented and it will not be presented to any other university or institution for a similar or any other degree award.

Signature

Date

DEDICATION

I dedicate this work to my beloved son FAIZI FAUZI MPONDA who was born in the year 2014, a few weeks before the start of this Dissertation.

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ABSTRACT

The general objective of the study was to assess the suitability of Microfinance institutions on poverty alleviation among rural communities in Tanzania. The study has employed both quantitative and qualitative research approaches in order to answer the research questions. The use of both approaches has put the study in a good position to confirm, cross validate or corroborate findings within a single study. A sample of one hundred and thirty (130) participants was used in this study by using the sample size table. Questionnaires were designed for beneficiaries and non-beneficiaries of microfinance institutions, face to face interviews and the focus group were the instrument used to collect data. The data was analysed with tables, percentages by using Microsoft Excel. The findings from the study were, large percentages of male were aware of the presence of the provision of microfinance services. Also the study has shown that large percentages of female in rural areas were aware of the presence of the provision of microfinance services. The study also shows that male respondents have education level from primary to degree level while female have education level from primary to secondary level and only few female have ordinary diploma. The study also shows that large percentage of male in the sample got microfinance services and small percentage of female in the sample size of one hundred and thirty (130) participants got microfinance services. The study also shows that Microfinance Institutions used different approaches in the provision of microfinance services. In this study the CRDB Bank, TPB Bank, NMB and PRIDE have shown different approaches used in provision of microfinance services in rural areas, but the best approaches were those used by the CRDB Bank.

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ABBREVIATIONS AND ACRONYMS.

ACB	Akiba Commercial Bank
AIMS	Assessing the Impact of microfinance enterprise services
BIDS	Bangladesh Institute of Development Studies
BRAC	Bangladesh Rural Advancement Committee
CGAP	Consultative Group to Assist the Poor
CIDA	Canadian International Development Agency
CRDB	Cooperative and Rural Development Bank
FINCA	Foundation for International Community Assistance
FSA	Financial Services Association
GVTS	Governments
GDP	Gross Domestic Product
IMF	International Monetary Fund
IFAD	International Funds for Agriculture Development
LDCs	Less Developed countries
MSE	Medium Scale Enterprises
MKUZA	Mkakati wa kupunguza umasikini Zanzibar
MKUKUTA	Mkakati wa Kukuza Uchumi na kupunguza Umasikini Tanzania
MKURABITA	Mpango wa kurasimisha rasilimali na Biashara Tanzania
MEDA	Mennonite Economic Development Associations
MFIS	Micro Finance Institutions
NGOS	Non Governmental Organizations
NMB	National Microfinance Bank
NSGRP	National strategy for Growth and reductions of poverty
OUT	OPEN UNIVERSITY OF TANZANIA
PAT	Poverty Assessment Tools
PRIDE	Promotion of Rural Initiative Development Enterprises

REPOA	Research on Poverty alleviation.
ROSCA	Rotating Savings and Credit Associations
SACCOS	Saving and Credit Cooperative Society
SCULT	Saving and Credit Cooperation Union League of Tanzania
SEWA	Self Employment Women Association
TPB	Tanzania Postal Bank
TEKU	Teofilo Kisanji University
UNDP	United Nations Development Programmed
UNIFEM	United Nations Development Fund for Women
VICOBA	Village community Bank
ZSGRP	Zanzibar strategy for growth and reduction of poverty

CHAPTER ONE

1.0 INTRODUCTION

1.1 Introduction

Chapter one contains the introduction. It comprises of the background to the research problem, statement of the problem, objectives, research questions, significance of the study, scope of the study, limitations of the study and definition of key terms.

1.2. Background to the research problem

There are about three billion people, half of the world population, who live on income of less than two dollars a day (Barr and Michael, 2005). Among these poor communities, one child in five does not live to see his or her fifth birthday (Barr and Michael, 2005). One study done in 2006 showed that the ratio of income between the richest and poorest of world population is 74 to 1 as compared to the ratio in 1960, which was 30 to 1 (planet finance, 2015). This indicates that poverty has continued to increase despite of existence of microfinance institutions.

Microfinance is the form of financial development whose primary aim is to alleviate poverty (Barr and Michael 2005, p 273). On the recognition of the potential of microfinance institutions in poverty reduction, the United Nations Organization (UNO) celebrated the year 2005 as a year of micro-credit (Mia, Md .B. p1) as a result this recognition, financing instruments have been perceived, worldwide, as an effective means of fighting against hunger and poverty, mainly in developing countries. Pilipina (2002) also observed that microfinance could be a critical element of an effective poverty reduction strategy. Improved access and efficient provision of savings, credit and insurance facilities in particular can enable the poor to smooth their consumption, manage their risks better,

gradually build their income earning capacity and enjoy an improved quality of life (Pilipina, 2002). Proponents of the credit approach argue that people who live in developing countries might improve their living standards by becoming micro entrepreneurs and that financial institutions should support their initiatives of acquiring small loans (Pilipina, 2002). In Tanzania, micro and small enterprises contribute 12% and 34% of rural and urban employment respectively as well as up to 32% of GDP (Wangwe and Semboja 1997).

Microfinance in Tanzania began with Non-Government Organizations (NGOs) and Savings and Credit Cooperative Societies (SACCOS) in 1995 and has continued to grow with the increased success of microfinance internationally (answer.com/microfinance in Tanzania 17/10/2007). Since the national microfinance policy was implemented in 2001, microfinance was officially recognized as a tool for poverty eradication and its increase use and exposure to the country, also banks took an interest in offering microfinance services (answer.com/microfinance in Tanzania 17/10/2007). To date, the National Microfinance Bank (NMB), the Akiba Commercial bank (ACB) and Cooperative and Rural Development Bank (CRDB) are also two big supporters of microfinance services in Tanzania (answer.com/microfinance in Tanzania 18/04/2015). Other microfinance institutions in Tanzania are the Foundation for International Community Assistance (FINCA), Promotion of Rural Initiative Development Enterprises (PRIDE) and Savannah Economic Development Authority (SEDA) as well as the Tanzania Postal Bank (TPB). Other institutions that provide microfinance to people in rural areas are: Community Banks and small banks that have taken an interest in this sector. There are also many Non-Government Organizations (NGOs) and non-profit organizations (answer.com/microfinance in Tanzania 18/04/2015).

Poverty is a big issue in Tanzania that is why the Tanzania Government has been taking different measures to overcome it. For example the introduction of Tanzania's National Strategy for Growth and Reduction of Poverty (NSGRP) known as "Mkakati wa Kukuza uchumi na kupunguza umasikini Tanzania (MKUKUTA) , the Property and Business Formalization Program (PBFP) also known as "Mpango wa kurasimisha Rasilimali na Biashara Tanzania" (MKURABITA) , KILIMO KWANZA and the Zanzibar strategy for Growth and reduction of poverty (ZSGRP) also known as "Mkakati wa kupunguza umasikini Zanzibar" (MKUZA) , all these have been introduced to fight poverty (Answer.com/microfinance in Tanzania 17/10/2007).

Different studies have been made by different researchers such as a research report no 06.3 by REPOA of 2006 on poverty alleviation in Tanzania shows that poverty is still prevalent. Tanzania has 44,841,226 people among them 33,003,142 are people in rural areas. Approximately, 12,343,175 of the rural people are poor (IFAD 2014). The question is why is poverty still prevalent while there have been government efforts and Microfinance institutions to fight poverty for a long time? Sam (2008) attempted to give an answer to this question that "Microfinance is not the solution to poverty, but neither is health, or education, or economic growth. There is no one single solution to poverty. The solution must include a broad array of empowering interventions and microfinance, when targeted to the very poor and effectively run, is one powerful tool (World Bank, 2008,). Professor Yunus (2003, p.171) said that "Micro-credit is not a miracle cure that can eliminate poverty in one fell swoop, but it can end poverty for many and reduce its severity for others." The question that remains to be answered is:

(i) What combination of institutions can really alleviate poverty in rural areas in Tanzania?

(ii) However theories on microfinance services lack research literature to answer the question. This calls for studies in order to get some more light.

1.3. Statement of the problem

The level of poverty in Tanzania is high; approximately 90% of Tanzanians' poor people live in rural areas (IFAD 2014). The incidence of poverty varies greatly across the country but it is highest among rural families that live in semi-arid regions and depend exclusively on livestock and food crop production. No region is significantly better off than others, and all are poor by any international standard (IFAD 2014). It is estimated that one third of Tanzanians live below the basic needs poverty line, and well below the international poverty line (IFAD 2014). Microfinance institutions is among the tools used to alleviate poverty in Tanzania. However, basing on the above discussion on the prevalence of poverty in the country, the suitability of microfinance institutions to alleviate poverty in Tanzania is questionable. This study aimed at assessing the suitability of these institutions on poverty alleviation among rural Communities in Tanzania.

1.4 Objectives

1.4.1 The General objective

This study seeks to assess the suitability of microfinance institutions on poverty alleviation among rural communities in Tanzania.

1.4.2 Specific objectives.

(i) To determine the awareness of people in rural areas of the services provided by microfinance institutions in Tanzania.

- (ii) To find out approaches used in the provision of microfinance services by the microfinance institutions.
- (iii) To identify the best approach to be used in the provision of microfinance services.

1.5 Research Questions

- (i) To what extent are people in rural areas in Tanzania aware of the presence of the provision of microfinance services? (e.g. From, NMB, CRDB, PRIDE, etc.)?
- (ii) What approaches are used in the provision of microfinance services in rural areas in Tanzania?
- (iii) What is the most suitable approach in the provision of microfinance services in rural areas in Tanzania?

1.6. Significance of the Study

The study will contribute to the body of knowledge on suitable approaches to the provision of microfinance services in rural areas in Tanzania. Further the findings will help Tanzania government's development partners, NGOs, Donor communities and other stakeholders to effectively and efficiently target their assistance to the microfinance sector. Moreover, microfinance strategists, policy makers, microfinance researchers, university and college students will also benefit.

Lastly but not least, successful completion of the study will contribute to the partial fulfilment of the award of Master of Business Administration in finance (MBA-FINANCE) of the Open University of Tanzania (OUT)

1.7. Scope of the Study

The study was conducted in Kyela District in Mbeya region. It has examined the suitability of microfinance institutions on poverty alleviation among rural communities in Tanzania.

1.8. Limitations of the Study

There are a number of limitations I faced in this study. During the time of interviewing people, I have faced problems in explaining questions as most of the people, who are involved in microfinance programs were illiterate and living in villages. Therefore, it was difficult to make them understand some of technical terms like capital, income etc., but I explained to them by using simple language until they understood. Also, some people were not ready to provide information related to their finances, in this situation I convinced them that the data would be handled with strict confidentiality. Other people were not found in their places despite their promises, for this I had to make several visits. Moreover, lack of theories on microfinance services was another challenge. My study depended on Grameen model as ideal for microfinance discussions. This model is based on group peer pressure where loans are made to individuals in groups and group members collectively guaranteed loan repayment.

1.9. Definitions of key terms

1.9.1 Microfinance

Microfinance is the supply of loans, savings, money transfers, insurance and other financial services to low-income people. Microfinance institutions (MFIs) which encompass a wide range of providers that vary in legal structure, mission, and methodology-offer these financial services to clients who do not have access to mainstream bank or other formal financial service providers (Adjei,2010).

In this study the term Microfinance is define as the provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance to poor people and low income households and their micro enterprises (Microfinance world 2009)

1.9.2 Micro-credit

Micro-credit is the lending side of microfinance (Rallens and Ghazanfar, 2005). It embodies giving small loans to poor people, usually without collateral. Microfinance institutions have stepped in to provide these loans because traditional banks are usually unwilling to serve the market of the poor. (Rallens and Ghazanfar, 2005).

1.9.3 Micro finance Institutions (MFIs)

A microfinance institution is an organization, engaged in extending micro credit loans and other financial services to poor borrowers for income generating and self-employment activities. A Micro finance Institution (MFIs) is usually not part of the formal banking industry. It is usually referred to as a Non-Government Organization (NGO) (Microfinance world 2009)

1.9.4 Empowerment

According to UNIFEM (2000) the term “empowerment” has been defined as the gaining of the ability to generate choices and exercise bargaining power, developing a sense of self-worth, a belief in one’s ability to secure desired changes. The rights to control one’s life are important elements of women’s empowerment. The term "empowerment" has been used to represent a wide range of concepts and to describe a proliferation of outcomes. The term has been used more often to advocate for certain types of policies and intervention strategies than to analyze them (UNDA)

1.9.5 Poverty

According to Mbilinyi (2000) poverty is a lack of means to satisfy basic materials and social needs as well as feeling of powerlessness. The concept of powerlessness presume an understanding of the power relations among different groups of people, including the rich

and poor, men and women, old and young, government leaders and ordinary citizens (Mbilinyi 2000). Poverty has many dimensions, including income and basic needs elements, and includes attributes such as right to dignity, non-discrimination and social inclusion which are not measurable in quantitative terms (Vande, 2001). Marguet (2001) defines poverty as the lack of income and productive resources sufficient to ensure sustainable livelihood, hunger and malnutrition, ill health, limited or lack of access to education and other basic services, increased morbidity and mortality from illness, homelessness and inadequate housing, unsafe environments and social discrimination.

In the context of this study, Poverty is a condition in which a person in a community is deprived of the basic essentials and necessities for a minimum standard of living. Since poverty is understood in many senses, the basic essentials may be material resources such as food, safe drinking water and shelter, or they may be social resources such as access to information, education, health care, social status, political power, or the opportunity to develop meaningful connections with other people in society. According to the World Bank's (1980) definition of poverty, "A condition of life so characterized by malnutrition, illiteracy, and disease as to be beneath any reasonable definition of human decency" (Ghalib, Assad. K. (2007),

1.9.6 Extreme Poverty/Absolute Poverty

Extreme poverty is the most severe state of poverty, where people cannot meet their Basic needs for survival, such as food, water, clothing, shelter, sanitation, education and health care. Eradication of extreme poverty and hunger by 2015 is a Millennium Development Goal set by UNO. To determine the number of extreme poor people around the world, the World Bank characterizes extreme poverty as living on the daily income of

US \$1 or less. It has been estimated that around 1.1 billion people currently live under these conditions. (Chandy and Kharas, 2014). In the context of this study the Extreme poverty is defined by the United Nations in 1995 as a condition characterized by severe deprivation of basic human needs, including food, safe drinking water, shelter, health care and education (World summit 1995)

1.9.7 Moderate poverty

In the context of this study the moderate poverty is defined as a condition where people earns about \$ 1 to \$2 a day, which enables households to just barely meet their basic needs, but they still have go for many of the other things – education, health care –that many of us take for granted. . (Chandy and Kharas, 2014).

1.9.8 Relative Poverty

Relative poverty is defined as a family income that is below a given proportion of the national average, and that those impoverished lack some of the goods, services and buying power that the middle class in that society takes for granted. (Chandy and Kharas, 2014).

1.8.9 Approach

It is a much wider to theories about the concept than a method and nature of language and language. It is the source of the principle.

1.10. Organization of this Dissertation

This study is organized into five chapters. Chapter one has introduction section, a background to the research problem, statement of the problem, objectives, research questions, significance of the study, scope of the study, limitations of the study, definition of key terms and organization of the dissertation.

Chapter two deals with literature review, it has an introductory section, the concept of microfinance, characteristics of microfinance, the history of microfinance, providers and models of microfinance interventions, the current Global perception of microfinance, Empirical studies outside Tanzania, empirical review in Tanzania, criticism of microfinance, microfinance and its impact in development, the impact of microfinance on poverty, research gap and conceptual framework of the study. Third chapter discusses the methodology used. It has an introductory section, research approaches, research design, area of the study, target population of the study, sampling techniques and sample size, data collection and data collection instruments, data processing and analysis, validity and reliability of data, and ethical issues.

The fourth chapter presents and discusses research findings, while the last chapter, chapter five, gives a summary of the findings, conclusions and recommendations.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction.

Chapter two reviews various studies related to microfinance institutions and their value in relation to poverty alleviation. The chapter covers the main sections such as Introduction, Concept of microfinance, characteristics of microfinance, the history of microfinance, providers and models of microfinance interventions, the current global perception of microfinance, empirical studies outside Tanzania, empirical review in Tanzania, criticisms of microfinance, microfinance and its impact in development, the impact of microfinance on poverty, research gap and conceptual framework of the study.

2.2 Concept of Microfinance

Microfinance, according to Otero (1999,p .8) is the provision of finance services to low income poor and self-employed people. These financial services according to Ledgerwood (1999) generally include savings and credit and can also include other financial services such as insurance and payment services. Schreiner and Colombet (2001, p.339) defined microfinance as the attempt to improve access to small deposits and small loans for poor households neglected by banks. According to Roth (2000) in Kirkpatric (2002, p.193) “Microfinance is a bit of a catch all- term. I t refers to the provision of financial products. A series of neologisms has emerged from the provision of these services, namely micro-credit, micro-savings and micro-insurance (Kirkpatric ,2002,p.173).The Canadian international Development Agency(CIDA) defines microfinance as,” the provision of a broad range of financial services to poor, low income households and micro-enterprises usually lacking access to formal financial institutions. Therefore, microfinance involves the provision of financial services such as savings, loans and insurance to poor people living in both urban

and rural settings who are unable to obtain such services from the formal financial sector. The terms microfinance and micro credit are often interchangeably used, but it is important to highlight the difference between them because both terms are often confused. Sinha (1998, p. 2) states that “micro credit refers to small loans, whereas microfinance is appropriate where Non-Government Organization (NGOs) and Micro Finance Institution (MFIs) supplement the loans with other financial services. Therefore micro credit is a component of microfinance in that it involves providing credit to the poor, but microfinance also involves additional non-credit financial services such as savings, insurance, pensions and payment services (Okiocredit, 2005).

In this study the definition of microfinance is adopted from the Canadian international

Development Agency (CIDA) which define microfinance as “the provision of a broad range of financial services to poor, low income households and micro enterprises usually lacking access to formal financial institutions.”

2.3. Characteristics of microfinance.

Microfinance gives access to financial and non-financial services to low income people, who wish to access money for starting or developing an income generation activity. The individual loans and savings of the poor clients are small. Microfinance came into being from the appreciation that micro-entrepreneurs and some poorer clients can be “bankable” that is, they can repay, both the principal and interest, on time and also make savings, provided financial services are tailored to suit their needs. Microfinance as a discipline has created financial products and services that together have enabled low-income people to become clients of a banking intermediary. According to Murray, and Boros, (2002). The characteristics of microfinance products include:

1. Short term Loan (usually up to the term of one year).
2. Payment schedules attribute frequent instalment (frequent deposits)
3. Instrument made up both principle and interest which is amortized over the course of time.
4. Easy entrance to the microfinance intermediary saves the time and money of the client and permits the intermediary to have a better idea about clients' financial and social status.
5. Application procedures are simple.
6. Short processing period (between the completion of the Application and the disbursement of the loan)
7. The clients who pay on time become eligible for repeat loan with higher amounts.
8. No collateral is required contrary to formal banking practice. Instead of collateral microfinance intermediaries use alternative methods such as the assessment of clients repayment potential by banning cash flow analysis' which is based in the stream of cash flows generated by the activities for which loan are taken.
9. The use of tapered interest rates (decreasing interest rates over several loan cycles) as an incentive to repay on time. Large size loans are less costly to the Micro Finance Institution (MFI), so some lenders provide large size loans on relatively lower rate

2.4. The History of Microfinance.

Micro credit and microfinance are relatively new terms in the field of development, first coming to prominence in the 1970s, according to Robinson (2001) and Otero (1999). Prior to them, from the 1950s through to the 1970s, the provision of financial services by donors or governments was mainly in the form of subsidized rural credit programmed. These often resulted into high loan defaults, high losses and an inability to reach poor rural households

(Robinson, 2001). Robinson states that the 1980s represented a turning point in the history of microfinance in that Microfinance Institutions (MFIs) such as Grameen Bank and BRI began to show that they could provide small loans and savings services profitably on a large scale. They received no continuing subsidies, were commercially funded and fully sustainable, and could attain wide outreach to clients (Robinson, 2001). It was also at this time that the term “micro credit” came to prominence in development (MIX3, 2005).

The difference between micro credit and the subsidized rural credit programmed of the 1950s and 1960s was that micro credit insisted on repayment, on charging interest rates that covered the cost of credit delivery and by focusing on clients who were dependent on the informal sector for credit. It was now clear for the first time that micro credit could provide large-scale outreach profitably. The 1990s “saw accelerated growth in the number of microfinance institutions created and an increased emphasis on reaching large scale” (Robinson, 2001, p.54). Ditcher (1999, p.12) refers to the 1990s as “the microfinance decade”. Microfinance had now turned into an industry according to Robinson (2001). Along with the growth in micro credit institutions, attention changed from just the provision of credit to the poor (micro credit), to the provision of other financial services such as savings and pensions (microfinance) when it became clear that the poor had a demand for these other services (MIX, 2005).

The importance of microfinance in the field of development was reinforced with the launch of the Micro credit Summit in 1997. The Summit aimed to reach 175 million of the world’s poorest families, especially the women of those families, with credit for the self-employed and other financial and business services, by the end of 2015 (Micro credit Summit, 2005).

More recently, the UN, as previously stated, declared 2005 as the International Year of Micro credit.

2.5. Providers and models of microfinance interventions.

According to the UNCDF (2005) there are approximately 10,000 MFIs in the world but they only reach four percent of potential clients, about 30 million people. On the other hand, according to the Micro credit Summit Campaign Report (Micro credit Summit, 2005) as of December 31st 2003, the 2,931 micro credit institutions that they have data on, have reported reaching “80,868,343 clients, 54,785,433 of whom were the poorest when they took their first loan”. Even though they refer to micro credit institutions, they explain that they include “programs that provide credit for self-employment and other financial and business services to very poor persons” (Micro credit Summit, 2005).

The differences between these sources highlight a number of points. Firstly, how the two terms, micro credit and microfinance are often confused and used interchangeably, though in the strict sense micro credit should refer only to the provision of credit to the poor. Secondly, the difference between the statistics shows how difficult it is to get a true picture of how many MFIs are in existence today and how many clients they are reaching. The IMF state that “no systematic and comprehensive data on MFIs is collected and there are no authoritative figures on key characteristics of the microfinance industry, such as the number and size of MFIs, their financial situation, or the population served” (micro credit summit ,2005, p.6). Despite the lack of data on the sector, it is clear that a wide variety of implementation methods are employed by different MFIs. The Grameen Bank (2000a) has identified fourteen different microfinance models of which I will focus on three; Rotating Savings and Credit Association (ROSCAs), the Grameen Bank and the

Village Banking models, as these are the three microfinance models that I will be dealing with in my research.

(i) Rotating Savings and Credit Associations.

These are formed when a group of people come together to make regular cyclical contributions to a common fund, which is then given as a lump sum to one member of the group in each cycle (Grameen Bank, 2000a). According to Harper (2002), this model is a very common form of savings and credit. He states that the members of the group are usually neighbours and friends, and the group provides an opportunity for social interaction and is very popular with women. They are also called merry-grounds or Self-Help Groups (Fisher and Sriram, 2002).

(ii) The Grameen Solidarity Group model.

This model is based on group peer pressure where loans are made to individuals in groups of four to seven (Berenbach and Guzman, 1994). Group members collectively guarantee loan repayment, and access to subsequent loans is dependent on successful repayment by all group members. Payment is usually made weekly (Ledgerwood, 1999). According to Berenbach and Guzman (1994), solidarity groups have proved effective in deterring defaults as evidenced by loan repayment rates attained by organizations such as the Grameen Bank, who use this type of microfinance model.

Under the Grameen Bank variation of this model, groups contain five members and savings must be contributed for four to eight weeks prior to receiving a loan. Savings must also continue for the duration of the loan term. Only two of the group members receive a loan initially. After a period of successful repayment, two highlight the fact that this model has contributed to broader social benefits because of the mutual trust arrangement at the

heart of the group guarantee system. The group itself often becomes the building block to a broader social network ((Berenbach and Guzman, 1994, p.121).

(iii) Village Banking Model.

Village banks are community-managed credit and savings associations established by NGOs to provide access to financial services, build community self-help groups, and help members accumulate savings (Holt, 1994). They have been in existence since the mid-1980s. They usually have 25 to 50 members who are low-income individuals seeking to improve their lives through self-employment activities. These members run the bank, elect their own officers, establish their own by-laws, distribute loans to individuals and collect payments and services (Grameen Bank, 2000a). The loans are backed by moral collateral; the promise that the group stands behind each loan (Global Development Research Centre, 2005) the sponsoring MFI lends loan capital to the village bank, who in turn lend to the members. All members sign a loan agreement with the village bank to offer a collective guarantee. Members are usually requested to save twenty percent of the loan amount per cycle (Lidgerwood, 1999). Members' savings are tied to loan amounts and are used to finance new loans or collective income generating activities and so they stay within the village bank. No interest is paid on savings but members receive a share of profits from the village bank's re-lending activities. Many village banks target women predominantly, as according to Holt (1994, p.158) "the model anticipates that female participation in village banks will enhance social status and intra house hold bargaining power".

2.6. The current global Perception of microfinance.

In the global arena there is already the impression that microfinance is successful in reducing poverty. Many policy makers are therefore engaged on how to make microfinance sustainable and available to many poor households in the future. Many stake holders in the

microfinance industry especially donors and investors argue that, “Microfinance can pay for itself, and must do so if it is to reach very large numbers of poor households” Consultative Group to Assist the Poorest (CGAP). The overall message in this argument is that unless microfinance providers charge enough to cover their costs, they will always be limited by the scarce and uncertain supply of subsidies from governments and donors. The main underlying assumption in this argument is that microfinance is already good for the clients, and therefore what is really urgent is to make the financial service available to as many poor people as possible. Morduch (2000) correctly points out that this kind of enthusiasm for microfinance rests on an enticing win-win proposition that: Microfinance institutions that follow the principles of banking will also be the ones that alleviate the most poverty. The assumption being that with good banking practices it is possible to cover costs and operate in a sustainable manner to continue serving clients and alleviating poverty (Morduch 2000).

The “win-win” situation both for the investor and the poor can be explained as follows:

The investor in microfinance programs follows good banking practices with the possibility of some profit, while the poor continue to benefit by accessing reliable credit that is assumed to be beneficial to their welfare. The supporters of the “win- win”

proposition stress (mainly by assumption) that the ability to repay loans by the poor is a good indicator that whatever investments the poor make with their micro credit loans must be giving back profits. Given the assumption that microfinance is already beneficial to the poor, the “win-win” proposition further assumes that the amount of household poverty reduced is directly proportional to the number of households reached with microfinance.

The “win-win” vision has been translated in to a series of “best practices” circulated widely by a number of key donors including the Consultative Group to Assist the Poorest (CGAP). Consultative Group to Assist the Poorest CGAP is a consortium of Non-Government Organization (NGOs) hosted at the World Bank. Other donor organizations that embrace “best practice microfinance” include, United States 16 Agency for International Development (USAID) and the United Nations Development programme (UNDP) among other key donors. It is important to note that the proposal of a commercial approach to microfinance for the poor has been questioned by socially oriented service providers. Especially the assumptions underlying the “win-win” proposition have raised eye brows among socially oriented service providers who question the validity of such assumptions in the real world. (Morduch 2000).

2.7. Empirical studies outside Tanzania.

Amin (2003) used a unique panel dataset from northern Bangladesh with monthly consumption and income data for 229 households before they received loans. They find that while micro credit is successful in reaching the poor, it is less successful in reaching the vulnerable especially the group most prone to destitution (the vulnerable poor). Coleman (1999) also finds little evidence of an impact on the programmed participants. The results, Coleman further explains, are consistent with Adams and VON PISCHKES assertion that “debt is not an effective tool for helping poor people to enhance their economic condition” and that the poor are poor because of reasons other than lack of access to credit.

According to Mosley (1999), microfinance makes a considerable contribution to the reduction of poverty through its impact on asset level. But the mechanism through which poverty reduction works varies between institutions. Generally, institutions that give, on average smaller loans reduce poverty much more by lifting borrowers above the poverty

line, while institutions giving larger loans reduce it much more by expanding the demand for labour amongst poor people. Nichils (2004) used a case study approach to investigate the impact of microfinance upon the lives of the poor in the rural China and found that the participation of poor in Micro Finance Institution (MFI) program had led to positive in their life. Their income have increased spending on educational and health have increased hence improved their standard of living and also women have benefited out of this programs.

Mosley (2001), in his research on microfinance and poverty in Bolivia, assed the impact of microfinance on poverty, through small sample surveys of four microfinance institutions. Two urban and two rural, using a range of poverty concepts such as income assets holdings and diversity, and different measures of vulnerability. All the institutions studied had on average, positive impacts on income and asset levels with income impacts correlating negatively with income on account of poor households choosing to invest in low risk and low return assets. The studies revealed also that in comparison with other anti-poverty measures, microfinance appears to be successfully and relatively cheap at reducing the poverty of those close to poverty line.

2.8. Empirical review in Tanzania.

In Tanzania several studies has been done on microfinance institutions service, some of the researchers who have done research on Micro Finance Institutions (MFI) service are Kuzilwa and Mushi (1997) these examined the role of credit in generating entrepreneurial activities. He used qualitative case studies with a sample survey of business that gained access to credit from a Tanzanian government financial source. The findings revealed that the output of enterprises increased following the access to the credit. It was further observed

that those enterprises, whose owners received business training and advice, performed better than those who did not receive training.

He recommended that an environment should be created where informal and quasi-informal financial institutions can continue to be easily accessed by micro and small businesses. Chijoriga (2000) evaluated the performance and financial sustainability of Micro Finance Institutions (MFIs) in Tanzania, in terms of the overall institutional and organizational strength, client outreach, and operational and financial performance.²⁸ Micro Finance Institution (MFIs) and 194 MSEs were randomly selected and visited in Dar es Salaam, Arusha, Morogoro, Mbeya and Zanzibar regions. The findings of this study revealed that, the overall performance of Micro Finance Institution (MFIs) in Tanzania is poor and only few of them have clear objectives, or a strong organizational structure. It was further observed that Micro Finance Institutions (MFIs) in Tanzania lack participatory ownership and many are donor driven. Although client outreach is increasing, with branches opening in almost all regions of the Tanzania mainland, still Micro Finance Institutions (MFIs) activities remain in and around urban areas.

In a study conducted by Kessy&Urio (2006) on contribution of Micro Finance Institutions (MFIs) on poverty reduction in Tanzania, the researchers covered four regions of Tanzania which are Dar es Salaam, Zanzibar, Arusha and Mwanza. Both primary and secondary data were collected; primary data were collected from 352 MSE's through questionnaires and interviews. Promotion of Rural Initiative Development Enterprises (PRIDE) (T) Ltd which is a microfinance institution was used as a case study so as to get the insight of Micro Finance Institutions (MFI) operations.

The study findings pointed out that to large extent Micro Finance Institutions (MFIs) operations in Tanzania has brought positive changes in the standard of living of people who access their services, clients of Micro Finance Institutions (MFIs) complained about high interest rate charged, the weekly meeting was pointed out as barrier as the time spent in weekly meeting could be used to other productive activities. The study recommended Micro Finance Institutions (MFIs) to lower its interest rate, increase grace period and provide proper training to MSE s.

Another study on microfinance in Tanzania was carried out by Rweyemanu (2003), he evaluated the performance and constraints facing semi-formal microfinance institutions in providing credit in Mbeya and Mwanza regions. The primary data were collected through a formal survey of 222 farmers participating in the Agriculture Development Programmed in Mbozi and the Mwanza Women Development Association in Ukerewe .In the analysis of their study interest rates were found to be a significant barrier to the borrowing decision.

Kessy, (2006) researched on the contribution of microfinance institutions to poverty alleviation in Tanzania .The main findings were that 81percent of the surveyed small scale enterprises realized profit after accessing loans .Fifty two percent of them found the loan amount and the time for payment to be inadequate. The high interest rates charged were bitter to low income earners who were the target group.

2.9. Criticisms of Microfinance.

Most criticisms of microfinance have actually been criticisms of micro credit. Criticisms focus on the impact on poverty, the level of interest rates, high profits, over indebtedness and suicides. Other criticisms include the role of foreign donors and working conditions in

companies affiliated to microfinance institutions. It is also criticized on the grounds that micro finance is delivered in the absence of other micro finance services such as savings, remittances and insurances which are also critical measures of the well-being of society.

2.10. Microfinance and its impact in development.

Microfinance has a role to play in development according to proponents of microfinance. UNCDF (2004) states that studies have shown that microfinance plays three key roles in development.

1. helps poor households meet basic needs and protects against risks,
2. Is associated with improvements in household economic welfare.
3. Helps to empower women by supporting women's economic participation and so promotes gender equity.

The aim of microfinance according to Otero (1999) is not just about providing capital to the poor to combat poverty on an individual level, it also has a role at an institutional level. It seeks to create institutions that deliver financial services to the poor, who are continuously ignored by the formal banking sector. Littlefield and Rosenberg (2004) stated that the poor are generally excluded from the financial services sector of the economy so Micro Finance Institutions (MFIs) have emerged to address this market failure. By addressing this gap in the market in a financially sustainable manner, an MFI can become part of the formal financial system of a country and so can access capital markets to fund their lending portfolios, allowing them to dramatically increase the number of poor people they can reach (Otero, 1999). More recently, commentators such as Littlefield, Murdugh and Hashemi (2003), Simanowitz and Brody (2004) have commented on the critical role of microfinance in achieving the Millennium Development Goals. Referring to various case studies like one

conducted by Murdoch and Hashemi(2003) , they show how microfinance has played a role in eradicating poverty, promoting education, improving health and empowering women (Murdoch and Hashemi 2003). However, not all commentators are as enthusiastic about the role of microfinance in development and it is important to realize that microfinance is not a silver bullet when it comes to fighting poverty. Hulme and Mosley (1996,p.134), while acknowledging the role microfinance can have in helping to reduce poverty, concluded from their research on microfinance that “most contemporary schemes are less effective than they might be”. They state that microfinance is not a panacea for poverty alleviation and that in some cases the poorest people have been made worse-off by microfinance. Rogaly (1996, p109-110) finds five major faults with Micro Finance Institutions (MFIs.) He argues

- 1 they encourage a single-sector approach to the allocation of resources to fight poverty,
- 2 micro credit is irrelevant to the poorest people,
- 3 an over-simplistic notion of poverty is used,
- 4 there is an over-emphasis on scale
- 5 There is inadequate learning and change taking place.

Wright (2000,p.6) states that much of the scepticism of Micro Finance Institutions (MFIs) stems from the argument that microfinance projects “fail to reach the poorest, generally have a limited effect on income drive women into greater dependence on their husbands and fail to provide additional services desperately needed by the poor”. In addition, Wright says that many development practitioners not only find microfinance inadequate, but that it actually diverts funding from “more pressing or important interventions” such as health and education. As argued by Navajas (2000), there is a danger that microfinance may siphon funds from other projects that might help the poor more. They state that governments and donors should know whether the poor gain more from microfinance, than from more health

care or food aid for example. Therefore, there is a need for all involved in microfinance and development to ascertain what exactly has been the impact of microfinance in combating poverty. Considerable debate remains about the effectiveness of microfinance as a tool for directly reducing poverty, and about the characteristics of the people it benefits (Chowdhury, Mosley and Simanowitz, 2004). Sinha (1998) argues that it is notoriously difficult to measure the impact of microfinance programmed on poverty. This is so she argues, because money is fungible and therefore it is difficult to isolate credit impact, but also because the definition of 'poverty', how it is measured and who constitute the 'poor' "are fiercely contested issues" (1998, p.3). Poverty is a complex issue and is difficult to define, as there are various dimensions to poverty.

2.11. The impact of microfinance on poverty.

There is a certain amount of debate about whether impact assessment of microfinance projects is necessary or not according to Simanowitz (2001b). The argument is that if the market can provide adequate proxies for impact, showing that clients are happy to pay for a service, assessments are a waste of resources. However, this is too simplistic a rationale as market proxies mask the range of client responses and benefits to the Micro Finance Institutions (MFIs). Therefore, impact assessment of microfinance interventions is necessary, not just to demonstrate to donors that their interventions are having a positive impact, but to allow for learning within Micro Finance Institutions (MFIs) so that they can improve their services and the impact of their projects (Simanowitz, 2001b, p.11). Poverty is more than just a lack of income. Wright (1999) highlights the shortcomings of focusing solely on increased income as a measure of the impact of microfinance on poverty. He states that there is a HIV/AIDS, malaria and other diseases ensure environmental sustainability; and develop a global partnership for development (Littlefield, Murdugh and Hashemi,

2003). Significant difference between increasing income and reducing poverty Wright (1999). He argues that by increasing the income of the poor, Micro Finance Institutions (MFIs) are not necessarily reducing poverty. It depends on what the poor do with this money, oftentimes it is gambled away or spent on alcohol, so focusing solely on increasing incomes is not enough.

2.12. Research gap.

Despite the success of microfinance institutions including the poor people in the financial sector, critics say that micro credit has not increased income but has driven poor household into a debt trap, and claim that this antipoverty tool lacks hard data to prove its positive impact on reducing poverty.

Also, there are mixed conclusions to the overall impact of microfinance institutions, some researchers show positive impact while others show negative impact of microfinance institutions. Also some show both positive and negative impacts of microfinance institutions. Therefore further research is needed; this study seeks to assess the suitability of microfinance services on poverty alleviation in Tanzania by using Kyela district as case study.

2.13. Conceptual Framework of the Study.

This study is based on household economic portfolio conceptual model propounded by Chen and Dunn (2006). The study has used the model in assessing the suitability of credit in poverty reduction as it presents relevant background theory to this study. Household Economic Portfolio Model has been defined by Chen and Dunn (2006) as sets of household resources, household activities and circular flow of the interactions between them.

The household receives credit from micro credit institutions and uses it as household resource; this credit adds income to the household and at the end the household pays back the debt and remains with its individual activities it has been doing plus increased assets. Assets are expected to increase if credit improves income to the household and if part of the increased income is used to add to existing assets and possibly part of it is used to improve consumption. This model explains the suitability of microfinance institutions on poverty alleviation by increases of income and assets after the household receives credit from micro credit institutions.

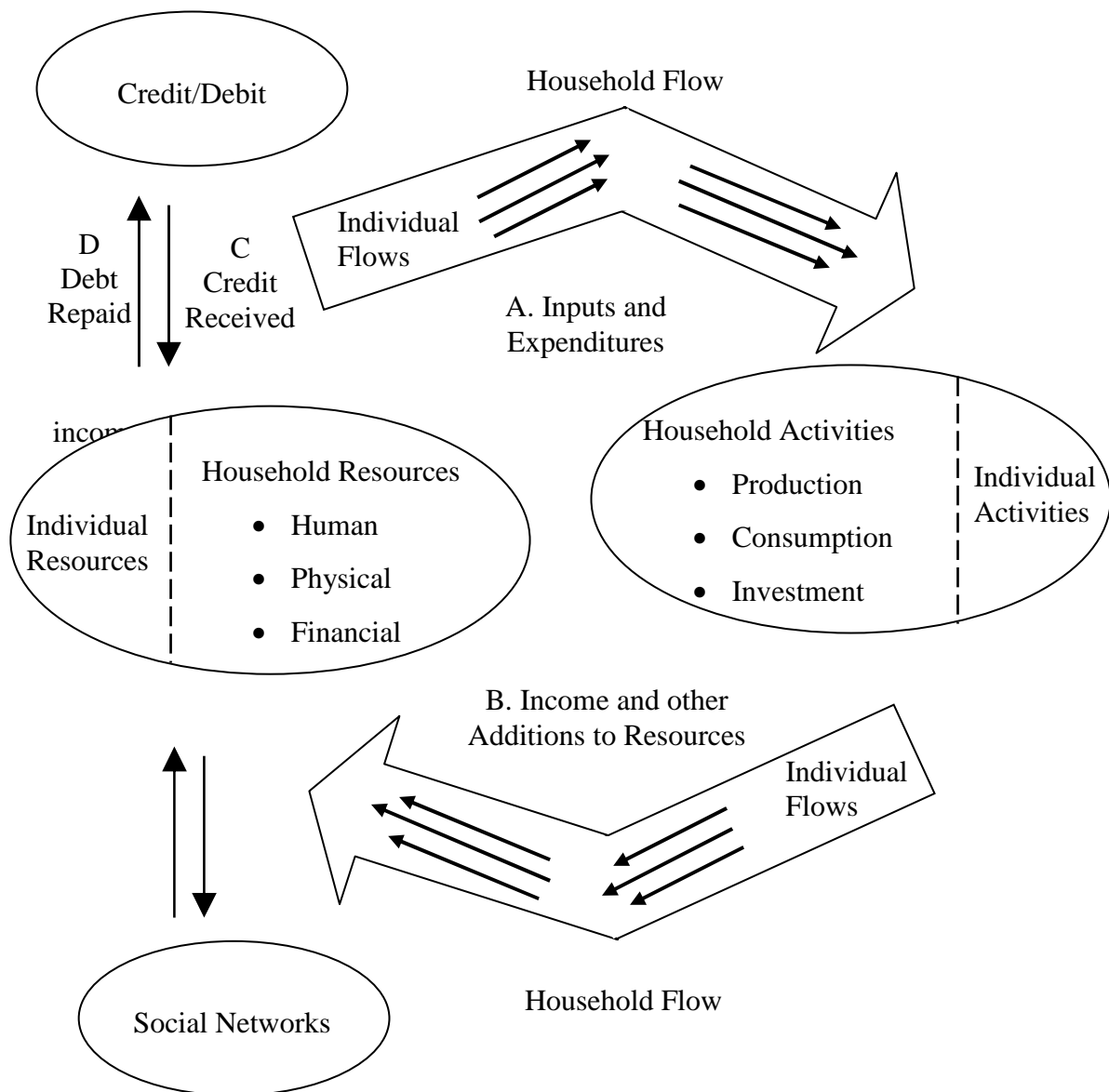


Figure 1.1: Conceptual Model of the Household Economic Portfolio

Source: Chen and Dunn. (2006)

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1. Introduction

This chapter looks at the methodology adopted in carrying out the study, namely the research approaches, research design, Area of the study, sample size and sampling procedures, data collection and data collection Instruments, data processing and analysis, Validity and Reliability and consideration of ethical issues.

3.2 Research approaches.

This study has employed both qualitative and quantitative research approaches but the former has been dominant. The adoption of these approaches is based on two reasons: First, the study has collected some data which were in numerical form from participants. Secondly, this study also seeks to gather in-depth opinions directly from respondents related to the topic under study. Therefore, the use of both approaches has put the study in good position to confirm, cross-validate and/or corroborate findings within a single study (Creswell 2009, p. 213)

3.3 Research Design

This study has employed a case study design to obtain information on the assessment of the suitability of microfinance institutions on poverty alleviation among rural communities in Tanzania. This design has helped the researcher to achieve a better understanding of the problem. This is because it has employed a variety of data collection methods based on the objective of the study (Best and Khan, 2006). The study has mainly employed a qualitative approach with some aspects of the quantitative approach. The qualitative approach has

helped with the generation or gathering of in depth opinions directly from respondents related to the study. Similarly, the quantitative approach, which is involved numerical and statistical procedures, has been used to complement the study. Therefore, the use of both approaches has enabled the study to confirm, cross-validate or corroborate findings within a single study (Creswell 2009). In this respect, the qualitative approach is informed by a case study design. Tellis (1997) states that case studies are designed to bring out the details from the viewpoints of participants by using multiple sources of data.

3.4 Area of the Study

The spread of microfinance institutions is throughout the country, but in this research the study area was Kyela district. The area has been selected because it has a large number of people with access to microfinance services and who are using the services, also a large number of micro and small entrepreneurs engage in different entrepreneurship activities are located in this area due to the border of Tanzania and Malawi. Also many people in different villages are engaged in different activities in order to get money for their families. Kyela district is located in the southern end of Mbeya region and it is one among seven districts in Mbeya region in Tanzania. The district lies between 35° and 30° longitudes east of Greenwich meridian and 9° latitudes south of the equator. In the east Kyela district borders with Makete and Ludewa districts in Iringa region and the south the district borders with the Republic of Malawi and Lake Nyasa. According to the National Census held in 2012, Kyela district is estimated to have a population of 221,490 of which males are 106,012 and females are 115,478 with annual population growth of 2.4% (National Bureau of statistics (NBS) 2012). Kyela district is divided into two divisions, these are Ntebela and Unyakyusa, 20 wards which are subdivided into 101 villages which are again divided into 392 hamlets.

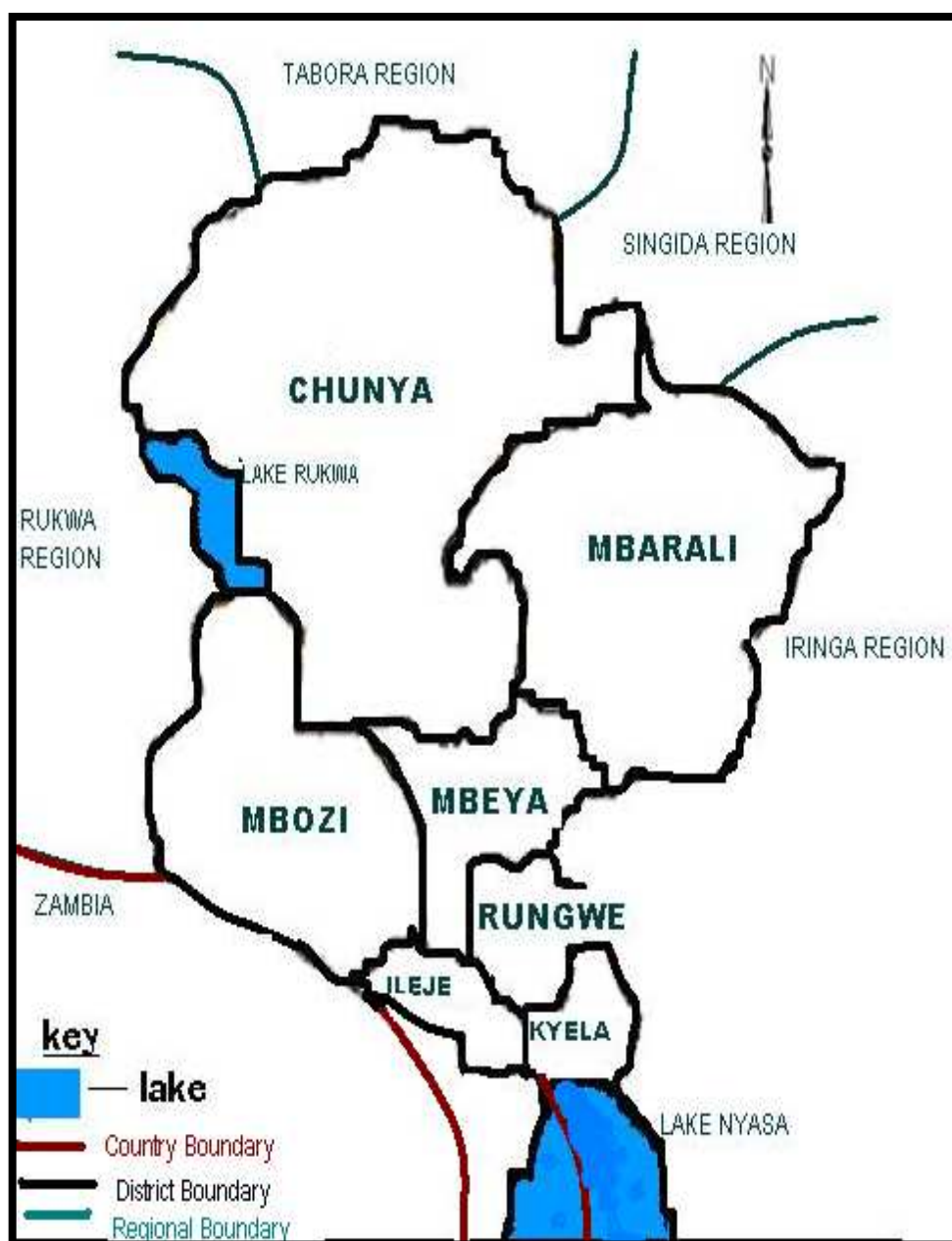


Figure 2.1 : 1Map of Mbeya Region showing the location of Kyela District (Source: Land Planning Officer, 2013)

3.4.1. Land use pattern

The District has an area of 1322 km² (132,200 hectares). The table below describes the distribution of the Land use pattern in the District.

Table 1: Land use Distribution

Table 2. 1 : Explain the distribution of land use in Kyela district where the area has shown in Hectares and each parts of land use it has shown in percentages.

Land Use	Area in Hectares	Percentages
Forest	6,320	4.7
Cultivated Land	48,128	36.4
Open Land	1,872	1.4
Water Features	45,000	34.5
Residential Area	30,880	23.3
Total	132,200	100

Source: Land Planning Officer, 2013.

Table 2. Administrative Units

Table 2. 2 show how the Kyela district has divided in division, wards, village and Hamlet in administrative units.

Kyela District	Division	Ward	Village	Hamlet
Total	2	20	101	392

Source: Kyela DC Planning Department 2014

Table 3. Wards and Villages distribution by Division

Table 2. 3 Shows how the Kyela district has divided in wards and villages by division.

No	Division	Number of wards	Number of villages
1	Unyakyusa	10	44
2	Ntebela	10	57
	Total	20	101

Source: Kyela DC Planning Department 2014.

3.4.2. Demographic Characteristics

3.4.2.1. Ethnic Groups.

There is 1 major ethnic group found in Kyela District namely Nyakyusa. Other ethnic groups are Ndali, Kinga, Ngoni and Kisi.

Table 2. 4 Number of Major Ethnicity Groups in the district

Kyela D.C	Number of Ethnicity Group	Major Ethnicity Groups
Total	5	Nyakyusa

3.4.2.2. Population Size and Growth.

According to the 2012 National Population and Household Survey Census, the District had 221,490 people with an annual growth rate of 2.4% and population density in the District is 168 people per sq.km, this being above the Regional average of 45 people and National average of 51 persons per sq.km; Unyakyusa Division has higher population density, which is attributed to the high economic activities undertaken in the area for commercial activities, agriculture, industry and an influx of the youth from other parts of the District to the Urban Centre of Kyela. The average household size in the District is 4.1 persons.

Since the active working group is 114,097 (51.51%) of the total population of 221,490 therefore it indicates that the District has enough working population capable of undertaking different viable economic activities

Table2. 5 Population structure by age and gender

Age group	Male	Female	Total	Remarks
0-4	15,365	15,148	30,513	Children Under 15 Years (41.33% of Population)
5-9	15,927	16,014	31,941	
10-14	14,572	14,521	29,093	
SUB TOTAL			91,547	
15-19	12,209	12,962	25,171	Active Working Group (51.51% Population)
20-24	8,486	10,351	18,837	
25-29	7,242	9,548	16,790	
30-34	7,110	8,061	15,171	
35-39	6,126	6,144	12,270	
40-44	4,394	4,383	8,777	
45-49	3,195	4,770	7,965	
50-54	2,642	2,797	5,439	
55-59	1,750	1,927	3,677	
SUB TOTAL			114,097	
60-64	1,953	2,436	4,389	Old Folk Above 60 Years (7.15% of Population)
65-69	1,299	1,802	3,101	
70-74	1,367	1,727	3,094	
75-79	1,020	1,092	2,112	
80+	1,355	1,795	3,150	
SUB TOTAL			15,846	
GRAND TOTAL	106,012	115,478	221,490	100%

Source: Kyela DC Planning Department, 2014.

3.4.2.3. Topography and Climate

(i)Topography

Kyela District has two distinct Agro – Ecological zones, the lowland and upland zone, the Lowland zone is found at lower than 1200 masl and the upland zone is found at over 1200 masl. Large area of low land zone is subject to flooding, threatening house hold`s survival thus calls for special attention. The two zones are drained by four major rivers: Songwe, Kiwira, Mbaka and Lufilyo. The altitude in lowland zones lies between 500 – 1200 masl and 1200 – 2400 masl in upland zones, rainfall in lowland zones is 1600 – 2400 mm and in upland zones is 1000 – 2000 mm, soil types in lowland zones is mainly Alluvial soils and Feral soils.

(ii) Climate

The Kyela District receives main rainy seasons between November to June with a meanannual rainfall between 2000mm and 3000mm. Normally in April and May the District experiences heavy rainfall. The District has a warm and humid climate with mean daily temperature of 23° C.

The natural vegetation is of tropical savanna forest and grass lands with lagoon vegetation on the swamps and river mouths to the Lakes.

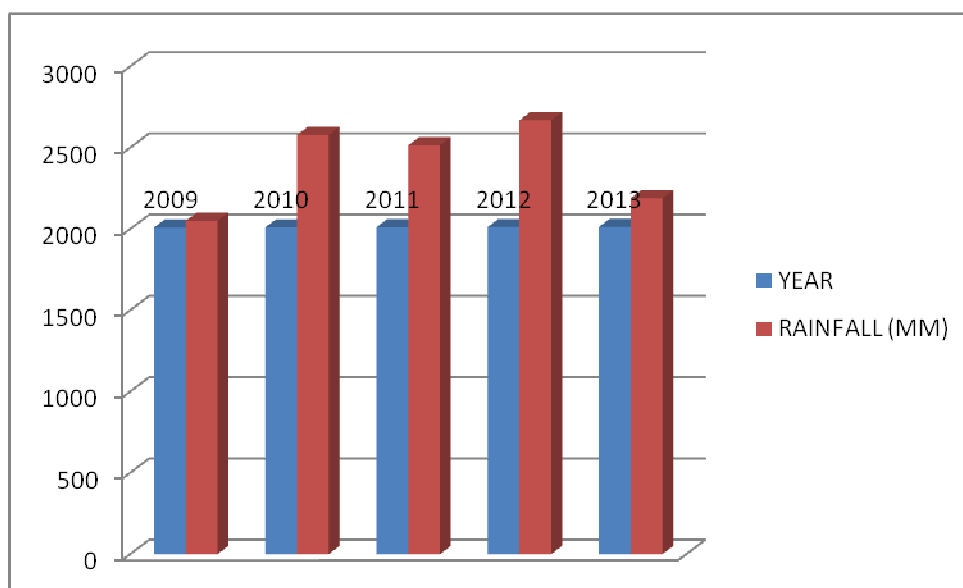


Figure 2.2 : Average Annual Rainfall IN (mm)

Source: Kyela DC Planning Department, 2014

3.4.2.4. Social services.

(i) Primary Education Sector:

Kyela District attaches great importance to education alongside other social services. Currently the District has 102 Primary schools and 94 Pre – Primary classes. In addition the District has total of 50,124 Primary school pupils where 25,035 are boys and 25,089 are girls while Pre- primary pupils are 10,788 pupils with 5,108 boys and 5,680 girls.

(ii) Primary School Education Facilities

Shortage of classrooms, school furniture, teacher's houses, pit latrines and other necessary materials for teaching purposes has greatly affected the quality of Primary Education. However some improvements have been achieved since 2001 after starting implementation of Primary Education Development Programmed (PEDP).

Under the Programmed, the Council has been able to construct 639 Classrooms, 210 teachers' houses; 1,123 pit latrines; fabrication of 12,800 desks.

Table2. 6 Facilities available in schools

Type of Facilities	Required	Available	Shortage
Classrooms	1,308	639	669
Teachers' House	1,358	210	1,142
Pit latrines	2,532	1,123	1,409
Offices	198	152	46
Desks	19,484	12,800	6,684

Source: Kyela DC Primary Education Department, 2014

Table2. 7 Distribution of primary schools in the district

District	2011			2013		
	Public	Private	Total	Public	Private	Total
Total	99	-	99	102		102

Source: Kyela DC Primary Education Department, 2014

(iii) Secondary Education.

The decision by the Government to allow Private and Community participation in promoting Secondary Education in the country has greatly-stimulated development of Secondary Education in the District. Currently there are 27 secondary schools out of which 22 are Government and the remaining are privately owned. The number of students for

government schools up to now is 12,734 where 7,190 are boys and 5,544 are girls for private schools there are 689 boys and 671 girls amounting to 1,360 students.

Table2. 8 Facilities available in schools

Type of Facilities	Required	Available	Shortage
Classrooms	433	384	49
Teachers' House	347	33	314
Pit latrines	721	298	423
Offices	22	20	2
Desks	14,251	12,785	1,599
Laboratory	66	7	59
Hostel	44	8	32

Source: Kyela DC Secondary Education Department, 2014

(iv) Rural Water Supply

Kyela District has an abundant of water sources acquired from 11 water schemes: Kanga, Ngamanga, Ngana, Makwale, Sinyanga, New Matema, Ikombe, Lubaga, Lema, Muungano and Masoko which supply tape water to the 82 villages out of 101 villages in the District. About 68.9% of people they get clean and safe water.

Also the District has got 63 pump wells and 5 electronic wells which serve the whole Kyela Town.

The Council has established a Water Board (KYELA URBAN WATER SUPPLY AUTHORITY – KUWSA) to carter for sustainable water services for almost 47,389 inhabitants in Kyela Township.

Table2. 9 Water Supply Coverage in the District

	2013		
	Estimate Population	Population Covered	% covered
Total	221,490	152,607	68.9

Source: Kyela DC Planning Department, 2014

(v) Health Services

Kyela District is fortunate to have health facilities spread almost within 5 Km to reach each member of household. The District has 1 District Hospital; 1 Faith based Hospital; 1 Health Centre; 27 Government Dispensaries and 8 Charitable/Private Dispensaries.

The 11 major diseases that are prevalent in the District are Malaria; Emergency surgical condition, Cardiovascular diseases, Pneumonia; Anaemia; Diarrhoea; Acute Respiratory Infection; Clinical AIDS; Eye Diseases; Urinary Tract Infection and Heart Diseases.

3.4.2.5. Economic Infrastructure

(i) Road Network

Kyela District has a fairly good transportation network. The District has a total road network of 556.9 Km of which 38.0 Km are tarmac, 218.85 Km gravel and the remaining 290.05 Km of surface roads.

The District and Feeder Roads, which are maintained by the District and the Community, cover 416.4 Km in total. Due to the climatic conditions of the District of receiving rainfall almost throughout the year, regular maintenance of roads and bridges is required.

Table2. 10 : The road network in the District

ROAD TYPE	TARMACKED	GRAVEL	EARTH	TOTAL
Trunk Road (Km)	37.5	-	-	37.5
Regional Road (Km)	-	103	-	103
Urban Roads (Km)	0.5	22.05	47.25	69.8
District Road (Km)	-	75.2	103.3	178.5
Feeder Roads (Km)	-	18.6	149.5	168.1
Total	38.0	218.85	300.05	556.9

Source: Kyela DC Planning Department, 2014

(ii) Telecommunications and Posts

The District is well served with a telecommunication network to the rest of the world. Tanzania Telecommunication Company Limited (TTCL) offer more than 400 lines and 20 Bond Band systems which can be also used for internet connections in all customers. There are cellular phone systems operated by Zain, Tigo, Zantel, Vodacom and TTCL. Internet cafes, fax, cable and postal services are also available.

3.4.2.6. ECONOMIC ACTIVITIES

The economy of Kyela District is mainly based on productive sectors such as Agriculture Animal husbandry, transportation, small scale industries, Tourism, Fishing, and business activities.

Agriculture is a major dominant sector of production and it employs about 80% of the total population in the District and the remaining sectors employ only 20%. The highest amount of District GDP comes from agricultural activities.

(i) Agriculture

Many people in the district about 80% depend on agriculture and the mostly cultivated food crops being paddy, maize, Banana, sweet potatoes, cassava and groundnuts. The major cash crops are cocoa, cashew nuts and palm oil. The three crops contribute to the income of the people by 65% of their total income and 70% on the district GDP. Farming activities are being conducted by using oxen, tractor and hand hoes and it is family labour based which results into low yields per area thus a need to invite investors to come and invest in agriculture so that the sector will be improved.

(ii) Irrigation.

In the Government strategy frame work for implementing policy in irrigation sub-sector; Irrigation has been identified as a key activity in Agricultural production due to droughts and erratic rainfall. Irrigation is seen as an assurance against risk in crop production as well as a key towards creating large volume production to meet National food security and big contributor towards poverty alleviation in rural areas.

The District has identified 6 irrigation schemes namely Ngana, Mabunga, Kanga, Ikumbilo, Mwaigoga and Makwale. All identified 6 schemes have been surveyed and designed already. Up to December, 2013 only 209 Ha are under irrigation by modern canal.

(iii) Animal husbandry

In Kyela district animal keeping is pre-dominantly the source of income to the rural and urban dwellers. Animals kept are cattle, goats, chicken, pigs and sheep. About 37% of the population is engaged in animal husbandry. Livestock provides a variety of benefits to rural community such as risk mitigation, food security and improved nutrition. The livestock production is affected by animal diseases and poor genetically potential. The District is

improving health status of animals by providing dipping facilities, vaccinations and improving genitival potential through artificial inseminations to indigenous cattle.

Table2. 11 Trend of livestock population for 3 years

S/No	Type of Animal	Year		
		2011	2012	2013
1.	Indigenous cattle	35,448	36,171	37,290
2.	Dairy cattle	2,688	2,702	2,785
3.	Indigenous Goats	1,803	1,836	1,893
4.	Dairy Goats	158	161	166
5.	Sheep	1,301	1,328	1,369
6.	Pig	30,763	31,391	32,877
7.	Local chicken	38,024	38,800	40,000
8.	Layers	1,189	1,213	1,250
9.	Ducks	6,012	6,135	6,325
12.	Guinea fowl	1,338	1,365	1,407

Source: Kyela DC Planning Department, 2014

Table 2. 12: Livestock Infrastructures in the District

Type of Infrastructure	In Operation	Out of Operation	Total
Dip Tank	9	3	12
Machakos	-	-	-
Abattoir	3	-	3
Slaughter Slab	12	-	12
Veterinary Health Center	9	-	9

Source: Kyela DC Planning Department, 2014

(iv) Trade and Industry.

About 3.9% of Kyela's people engage in small business. Because of its location near the border to Malawi, trade (both legal and illegal) is hot between the two countries particularly brown sugar, sold by street vendors at Border town. Although this is significant, there is the need for people, particularly villagers, to be educated on the importance of engaging in business apart from farming activities, so as to be active during the entire year, supplement their income, and minimize the risk from farming. "Jitambue Lembuka Tanzania" (JLT) is a NGO striving to educate people on this issue. In addition, the District being a principal producer of quality rice in Tanzania, small traders involve themselves in buying and selling this rice from farmers during harvesting period especially in May to July every year.

Although the manufacturing industry is just in its early stages, the district is growing rapidly, and it has a lot of potential. The red palm oil processing industry has begun oil and soap production on a small scale. Other industries with potential for the district include cocoa processing (heat-treating, roasting, and oil extraction), cashew nut roasting and

packaging (in Ipinda and surrounding areas, where most of the cashew nut production occurs), and fruit processing (eg. canning, drying, wine-making, etc.). There is a red-palm oil processing machine in Ipinda, owned by the Kyela Cooperative Union, but this machine has become debilitated from long-time storage. In Ipinda there is also a large pig-slaughter house.

(v) Distribution and Supply Chain

Kyela District is a low land area. About 15% of its area i.e. 130.8 km² is low land. This type of topography is an added advantage for easy construction of various infrastructures especially road networks from the point of production to the point of consumption (markets) either within or outside the District. There are some satellites centres established in the District which serves as nearby markets. These centres are Kasumulu, Ipinda, Kyela Town, Busale, Ngyekye and Kafundo(AMSDP.).

Feeder roads are connected to these centres which have access to District, Regional and National roads. Thus transportation of inputs and outputs in this District is encouraging. In some areas where there is enough population, producers can use to sell their products in the same area and also get enough labour to be used in production processes. On the other hand the forward and backwash link can be mainly applied so as to ease production and marketing processes.

By insisting the policy of industrial concentration in one area, it will be easy to use the residue of one industry as the raw materials for example an industry processing palm oil carnal its residue can be used as the raw materials for another industry packing animal feeds.

(vi) Cooperative Sector Development

Kyela district has a long history of Cooperative movement for many years; Cooperative Societies have been making great contributions to on economic and social development for the inhabitants. Their functions included marketing of agriculture products, supplying of agricultural inputs and offering credit services to the peasants. More emphases/ concentration now is on SACCOS as a means of spreading financial services to the denied community credit and compulsory savings. As at the end of December, 2013 there were 36 Cooperative Societies of which 14 are SACCOS, 16 are AMCOS, 1 Cooperative union and 5 are other types of Cooperative societies.

Table2. 13 Active Cooperative Societies in the District

Type	SACCOS	AMCOS	Cooperative union	Others	Total
Total	14	16	1	5	36

Source: Kyela DC Planning Department, 2014

3.4.2.7 Natural Resources

(i) Forestry

Kyela District is estimated to have a total of 29,433 Ha. Of forest reserve of which a big portion of it is a Natural forest and District forest plantation. The Livingstone Forest Reserve on the Livingstone Ranges is the largest reserve in the District.

Table2. 14 Forest Reserves in the District

	No. of Forests	Total Area of Forests	No. of Reserved Forests	Total Area of reserved forests	Encroached Reserved Forests	
					No. of Forests	Ha
Ha.	9	29,433	9	29,433	12	12

Source: Kyela DC Forests Department, 2014

Table2. 15 Tree Seedlings planted in the District, 2011-2013

Kyela District	2011	2012	2013
Total	1,845,000	1,561,071	1,645,071
Survival Rate	1,845,000	1,462,000	1,245,608

Source: KyelaDC Forests Department, 2014

(ii) Beekeeping

Beekeeping is widely practiced in some parts of Kyela District. The District produces about 2 % of the total honey produced in the Region. Chunya, Mbeya Rural and Mbozi are the main leading producers. The main products obtained include honey and beeswax, which are exploited for commercial purposes.

3.4.2.8. Financial Services

The District served by 3 banks which are National Microfinance Bank (NMB), CRDB and TPB these offer financial services and normal ATM services, the ATMs work 24 hours, seven days in a week.

Apart from NMB, CRDB and TPB services, the District receives from SACCOS such as WAWEKO individual money lenders and NGOs which are PRIDE Tanzania Limited and Bayport provide financial services to group members. Other Financial NGO's particularly Instant credit; Blue finance, PLATIMUM and Faidika provides financial services mostly to employed staffs with their offices situated at Regional headquarters.

1.5 Target population of the study.

The population of the study has consisted of staff and the clients of microfinance institutions in the Kyela district, both micro credit programmed beneficiaries and non-beneficiaries have been involved. The population size is 221,490 people.

3.6. Sampling Techniques.

Two types of sampling procedures have used for the study. These were simple random sampling and purposive sampling. The choice of these kinds of techniques is based on Kothari's argument that each society is homogeneous and each has got equal chance of being selected in the sample (Kotharis, 1985)

3.6.1. Purposive sampling.

The study has used purposive sampling which is a non-probability sample that conforms to certain criteria for selecting the staff of microfinance institutions. Purposive sampling was useful since it helped to reach targeted samples quickly and it has helped to get easily the opinions of the targeted population with required information (Cooper, 1998).

3.6.2. Random sampling

The study has used random sampling in choosing beneficiaries and non-beneficiaries of microfinance institutions. This is because random sampling gives an effective and easy way to trace the beneficiaries and non-beneficiaries of microfinance institution without bias.

3.7. Sample size and sampling procedure

This study was conducted in Kyela District, sample of two staffs members of each of the five microfinance institutions and one hundred and twenty (120) beneficiaries and non-beneficiaries were picked. The research was based on the household unit of families that access only the loan from micro credit institutions. A sample size table was used to select the sample size of 384 with confidence level of 95% and margin of error of 5% with a population of 221,490 as a number of populations in Kyela district. (Cohen and Morrison, 2005). I have decide to use the sample size table because the using of the table is much simple than employing a formula to calculate the sample size. A sample size of least thirty people is held by many to be the minimum number of sample if researchers plan to use some form of statistical analysis on their data. The minimum sample size will accurately represent the population being targeted. Too large a sample might become unwieldy and too small a sample might be unrepresentative. Also sample size might be constrained by cost in terms of time, money, stress, administrative support, the number of researchers and resources (Cohen and Morrison, 2005).

In the context of this study a sample of 130 has used instead of 384 because the sample of 130 is above the required minimum sample size of thirty (30) and also sample of 130 is on the entire population and has overcome the cost in terms of time, money, stress, administrative support and other resources.

Table2. 16 An Overview of the participants in the study by category, frequency and gender.

Category of respondent	Male	Female	Total
Staffs of microfinance institutions	5	5	10
Members of microfinance institutions who are beneficiaries of loans	30	30	60
Members of microfinance institutions who are not beneficiaries of loans	30	30	60
Total	65	65	130

3.8 Data Collection and Instruments

The selection of data collection techniques was based on how strong and efficiently they assist in collecting the required information. This study engaged five types of data collection tools: questionnaire, interview, documentary review, observation and focused group discussion methods.

3.8.1 Types and sources of data.

(i) Primary data.

In this study primary data was collected from selected staff of microfinance institutions and clients of the microfinance institutions. The methods used to gather information from respondents included, interview, focus group discussions, questionnaires and observations.

(ii) Secondary data

The relevant information that was not obtained from the field on poverty and the selected microfinance institutions which are important in this study was gathered from books, research literatures, articles, journals, articles and theses. Web pages of some prominent organizations like Grameen Bank, Google, World Bank were also used as sources of secondary data.

3.8.2 Instruments of data collection

In this study data have collected through, document search, interview, focus group discussion, observation as well as questionnaire.

(i)Documentary search

In this study different information have been obtained from official records, collected from selected microfinance institutions, Kyela district council, libraries, web page. Example of these records were reports, printed forms, letters, autobiographies, diaries, compositions, themes, or other academic work, periodicals, bulletins or catalogues, syllabi, court decisions, pictures, films and cartoons which has provided relevant information for this study.

(Best and Khan, 2006 p.267).

(ii) Interview

A face to face communication was conducted directly to respondents in order to gather relevant information by using guide line questions. Interviews schedule were used in this study because they are flexible in the questioning process. Also if the interviewer and interviewee face one another it is possible for them to clear up any misunderstandings immediately, either the interviewees could seek clarification on what they did not understand or during the interview the interviewer can reword or re-order the question when something unexpected occurred (Kothari, 1990 p.120).

(iii) The focus group.

In this study, groups of five to ten people were organized in order to discuss in detail issues of the suitability of microfinance institutions in poverty alleviation under study. The discussion was directed by questions developed from research objectives. The technique filled the gap that was left by other techniques that were employed, particularly questionnaires. (Cohen, 2000 p. 288).

(iv) Observation.

A direct observation and environment scanning without involving respondents were used in this study in order to gather relevant information that assisted in the assessment of the suitability of microfinance institutions on poverty alleviation among rural communities in Tanzania. Living standards of people in rural areas were assessed through observing their food, education, shelter and the interaction of microfinance institution and clients.

(v) Questionnaires

The study also used questionnaires, since the technique allows the coverage of a large population within a short period of time. Respondents had adequate time to give well

thought responses, and respondents who are not easily approached could be reached easily by this method (Best and Khan, 2006). In this study both open and close-ended questions were employed to collect data. . Open-ended questions have allowed respondents to explain their views on particular issues while close-ended questions permitted the respondents to choose responses.

3.9. Data processing and analysis

The processing and analysis of data were done by using Microsoft excel , in this study the processing and analysing of data has involved a number of closely related operations which were performed with the purpose of summarizing the collected data and organizing these in a manner that they answered the research questions. Also the study has examined the collected raw data to detect errors and omissions and these were corrected possible. The data also was arranged in groups or classes on the basis of common characteristics example respondents with same age, sex, education etc. The raw data were summarized and displayed in compact form for further analysis. The data were arranged in columns and row.

3.10. Validity and Reliability of the data

3.10.1. Reliability of data

Reliability refers to the consistency with which repeated measures produce the same results across time and across observers (Patton, 2002). In order to ensure reliability of the data in this study, four methods of data collection were used. These were interview, documentary review, observation and the questionnaire. Questionnaires were developed in line with the research objectives and questions. Also a pre-testing of the questionnaires was conducted to guarantee common understanding of the questionnaire items among respondents.

3.10.2. Validity of data

Validity of the data refers to the extent to which the concept one wishes to measure is actually being measured by a particular scale or index (Babbie, 1992). To ensure validity, the data were gathered from a number of business ventures from Kyela district. This has made sure that there was a representation of views from the entrepreneurs from all districts. To ensure validity also primary data were cross-checked against secondary data.

3.11. Consideration of Ethical issues

Ethical procedures for data collection involved requesting a letter of introduction from the Vice chancellor through Regional Director of the Open University of Tanzania. This was given to each respondent, followed by explanations of the purpose of the study, the importance of the respondent's participation and significance of the study to all stakeholders. Lastly, respondents were asked to volunteers to participate in the study. On acceptance of the request, participants were supplied with questionnaires or interview schedules through which data were been collected. .

3.11.1. Research clearance letters.

All necessary processes required for undertaking research before and during the study were followed. Before going for data collection, permission letters were sought from the office of Vice chancellor through the Regional Director of the Open University of Tanzania, to introduce me to the respective regional, district authorities and heads of selected microfinance institutions.

3.11.2. Informed consent

In this study respondents were informed of the purpose of the study and how the information would be used as well as the implication of the study so as to solicit their voluntary participation in the study.

3.11.3. Confidentiality

The participants were ensured of confidentiality about the information given by them. The respondents were assured beforehand that the information they would provide would be confidential and private and would be used for research purposes only.

CHAPTER FOUR

4.0 PRESENTATION AND DISCUSSIONS OF RESEARCH FINDINGS.

4.1 Introduction

This chapter presents the findings on the assessment of the suitability of Microfinance institutions on poverty alleviation among rural communities in Tanzania; it analyses and discusses research findings which were collected during the field study. The presentation, analysis and discussion are focused on three research objectives which were put in line with the research questions and the general research objective.

4.2. Awareness of the presence of the provision of microfinance (NMB, CRDB, and PRIDE) services in rural areas.

Table 4. 1. Awareness of the presence of microfinance services in rural areas based on gender of the respondents. It shows the gender of the respondents who are aware and who are not aware of the provision of microfinance services in term of percentages.

S/ N	RESPON DENTS		PERCENTAG E %	YES	%	NOT	%
1	MALE	76	58%	60	79%	16	21%
2	FEMAL E	54	42%	39	72%	15	28
		130	100%	99	76%	31	24%

Source: Field data, 2015.

Table 4.2 Awareness of the presence of microfinance services in rural areas based on education of the respondents. The table 4.2 shows the education level of the respondents

who are aware and who are not aware of the presence of microfinance services in rural areas in term of percentages of male and female.

S/N	EDUCATION	MALE	%	FEMALE	%	
1	PRIMARY	26	34%	25	46%	
2	SECONDARY (‘O’LEVEL)	20	26%	26	48%	
3	SECONDARY (‘A’LEVEL)	11	14%	0	0%	
4	ORDINALY DIPLOMA	10	13%	3	6%	
5	POSTGRADUATE DIPLOMA	0	0%	0	0	
6	FIRST DEGREE	8	11%	0	0	
7	OTHERS	1	2%	0	0	
8	TOTAL	76	100%	54	100%	

Source: Field data, 2015.

The respondents were asked to what extent people in rural areas are aware of the presence of the provision of microfinance services. The respondents were grouped in two groups of male and female and ask the question randomly. The finding shows that 79 % of male said that people in rural areas aware of the presence of the provision of microfinance services. But only 21% of male said people in rural areas are not aware of the presence of the provision of microfinance services. Also the finding shows that 72 % of female said that people in rural areas aware of the presence of the provision of microfinance services. But 28% of female

said people in rural areas are not aware of the presence of the provision of microfinance services. 34% of male were primary education level and 46% of female were primary education level. Also 26% of male have secondary education level and 48% of female have secondary education level. The finding also show that 14% of male have Advance secondary level but none of female have Advance secondary level. 13% of male have ordinary diploma but only 6% of female have ordinary diploma education level.

The finding also shows that none of the respondent has POSTGRADUATE DIPLOMA in education level. Also 11% of male have FIRST DEGREE and none of female have FIRST DEGREE. In this study male have higher education level than female and hence 79% of male are aware of the provision of microfinance services. The level of education affects the awareness of the provision of microfinance services. 58% of male in the sample size get microfinance services and 42% of female in the sample size get microfinance services. These services offered by microfinance institutions are, loans, training, savings, advice and supervision, share and deposits. The combination of these services offered by MFIs helping clients to became more efficient in running their business.

4.3. To find out approaches used in the provision of microfinance services by

Microfinance institutions in Tanzania.

4.3.1. Approaches used by CRDB Bank in provision of microfinance services in rural areas in Tanzania.

CRDB is Tanzania fifth largest commercial bank, it was established in July 1996 and has launched its microfinance initiative in 2001 and serves more than 78,000 clients through 157 partner institutions. CRDB assist people in rural and urban areas to formulate group of people and help to register as a SACCOS .Also provide technical support to SACCOS and

provides various types of bank account and services to SACCOS such as money transfers, insurance and the Tembo card to SACCOS members (Source: Field work 2015).

CRDB Bank has a number of loan types available to SACCOS depending on their financial needs. A SACCOS must meet certain basic requirements to qualify for a loan. These requirements include audited accounts for the past three years, details of SACCO's members; SACCOS share capital, past performances report for individual borrowers and so forth. For a first loan the SACCOS must deposit 25% of the loan amount in cash at CRDB Bank. SACCOS were selected based on commitment to learning, willingness to provide CRDB with required information, experience with/prevalence of fraud and how the SACCOS were managing themselves and whether they were serious about what they were doing. CRDB provide the following support to SACCOS that are, initial assistance, management and governance structure, systems and reporting, training and ongoing technical support and advice (Source: Field work 2015). Different SACCOS have been formulated with assistance by CRDB these are as follow:-

1. Community based SACCOS.

These SACCOS can be found in urban areas or regional town, but are most frequently encountered on village level. A variety of group and individual loans can be found, including women solidarity loans, business loans for individual members or loans for small and micro enterprises. (Source: Field work 2015).

2. Employee based SACCOS.

This represents SACCOS where all the members are drawn from one employer and these SACCOS are generally located in urban areas or regional level. Specific salary based loans are extended which are often guaranteed by the employer. (Source: Field work 2015).

3. Agricultural SACCOS

These represent small scale cane growers in areas such as the Morogoro region and cotton growers. Both individual farmers and farmers associations can be clients of the SACCOS. Loans are extended for various purposes, including agricultural production loans. (Source: Field work 2015).

4.3.1.1. Other Services Provided By Crdb Bank

(i) Savings Account.

This is like any other normal savings accounts. Large amounts can be withdrawn with a notice of only one day. It earns interest at the end of the year. Account holders can deposit and withdraw from any of the bank's branches.

(ii) Fixed Deposit Account

This account is opened for a fixed amount, fixed period and fixed interest. Once it is opened for a fixed period no withdraw is done until the maturity, otherwise, if drawn prematurely the interest earned is withheld. Usually fixed deposit account earns high interest compare to other deposit accounts. (Source: Field work 2015)

(iii) Current Account.

This is a cheque account where by account holders can easily access their deposit and withdrawal facilities. This account does not earn interest and therefore it is assumed to be operated by a corporate customer. This is the main account held by SACCOS, and SACCO's member but also for non-member of SACCOS (Source: Field work 2015)

(iv) Junior Jumbo Account

A savings account specifically designed to enable parents and guardians to conveniently save for their children's future, particularly education.

(v) Malkia Account

Is a unique saving plan that is designated for women who wish to meet their financial obligations as well as personal goals and dreams by investing in small amount every month.

(vi) Cash-taking facilities.

CRDB Bank collects cash from the SACCOs for safe-keeping. To this end the CRDB hires a vehicle and security from the regional CRDB branch.

(vii) Insurance. CRDB Bank Limited is an agent for Royal Insurance. Thus the SACCOs secure their cash in custody, transit and teller cubicles against burglary through the CRDB Insurance agency. (Source: Field work 2015)

(viii) Money Transfers.

Money transfer facilities are available to SACCO members and non SACCOS members through deposits made at any CRDB branch, or from the SACCO via CRDB branch. (Source: Field work 2015)

(ix) TemboCard.

CRDB Bank's Tembo Card is also available at some SACCOs and non-Sacco's members. There are two versions of the Tembo Card: the one is a debit card which allows clients to transact at CRD Band partner ATM's anywhere in the country. The other is a smartcard version, and is usually issued to rural SACCO members who do not have access to CRDB ATMs. The SACCOs have point-of-sale equipment which

enables them to load value onto the account for a client. The clients generally use these smartcards for merchant-related purchases, such as paying for their agricultural input.

(Source: Field work 2015)

(x) Loan surety and guarantees.

Various forms of surety or guarantees are prevalent, based on the type of

Loan and/or SACCO:

1. A group guarantee from all the members on SACCO level (no monetary value).

1. Tiered cross-guarantee: This refers to loans by SACCOs to individuals, which are guaranteed by the group. These guarantees are often used for agricultural purposes, where an individual loan to a farmer is partially secured by the farmers' association's guarantee to purchase the farmer's produce.

2. Employer guarantees loans: There are two types of employee guarantee loans: A SACCO may have some members who are formally employed, and their loans are guaranteed through a salary-based deduction by the employer.

In contrast, an 'employee-based' SACCO would have drawn all its members from one employer and the SACCO may receive a general guarantee from the employer for all its members. The guarantee is to the CRDB, and stipulates that for the loans issued by the CRDB, employer is committed to effect salary deductions and deposit them in the SACCOs' account with CRDB, CRDB Bank forfeits the 25% of the approved loan amount and the SACCO does not give any tangible security apart from the employer guarantee.

(Source: Field work 2015)

3. Women groups: SACCOs are encouraged to allow women groups to operate at the SACCO level under group solidarity lending methodology.

4.3.2. Approaches used by NMB Bank in provision of microfinance services in rural areas in Tanzania.

The National Microfinance Bank is the probably the closet to a large government bank that Tanzania has. It was created from the restructuring of the National bank of commerce (NBC) by an act of parliament after NBC s mandate break up due to its monopoly of in Commercial banking in Tanzanian Bank has the largest branch network in Tanzania, it also has new technologies such as mobile banking integration with mobile network and the largest ATMs network which plays a key role in its expansion. The bank introduced innovative products and services and continues to meet customer and client's savings, transactional and financing needs in urban and rural areas. NMB provide services to over two million customers. NMB demonstrate affirm commitment to financial inclusion for the population (**PROF. BENNO NDULU 2015**).NMB provide different services to the clients such as savings, credit, payments, insurance and more advanced financial services such as pensions, securities and government transfer through mechanism. NMB has established what is known as NMB foundation to support farmer groups and co operations to exercises good governance, financial literary and management of the cooperatives and farmer groups.

4.3.2.1. Other Services Provided By NMB Bank

- **Savings Account.**

This is like any other normal savings accounts. Large amounts can be withdrawn with a notice of only one day. It earns interest at the end of the year. Account holders can deposit and withdraw from any of the bank's branches.

- **Fixed Deposit Account.**

This account is opened for a fixed amount, fixed period and fixed interest. Once it is opened for a fixed period no withdraw is done until the maturity, otherwise, if drawn prematurely the interest earned is withheld. Usually fixed deposit account earns high interest compare to other deposit accounts. (Source: Field work 2015)

- **Current Account.**

This is a cheque account where by account holders can easily access their deposit and withdrawal facilities. This account does not earn interest and therefore it is assumed to be operated by a corporate customer. (Source: Field work 2015)

- **NMB salaried workers Loans.**

These are loans offered to employees of both public and private institutions/organizations. The employee does not required pledging of any collateral to guarantee the repayment rather the employee will channel his/her salary through the NMB Bank account.(Source: Field work 2015)

- **NMB Car Loans.**

An NMB Car loan is designed specifically for salaried workers employees in Government institutions, agencies, private organizations who are in permanent employment terms or long term contracts. Through NMB Car loan the clients will manage to own his/her own dream car with just a small savings.

- Collection and payment services to large corporate clients to/from micro and small enterprises.
- Money transfers and payroll services to both the large corporate clients and micro and small enterprises.
-

- **TAX COLLECTION.**

NMB also collect various taxes on behalf of TRA. This service is available at all NMB branches countrywide.

4.3.3. Approaches used by TPB Bank in provision of microfinance services in rural areas in Tanzania.

The Tanzania Postal Bank is the 4th Commercial bank that is involved in microfinance. Like the National microfinance Bank, the Tanzania Postal was created by an act of Parliament. Established by TPB act no 11 as amended by act no12 of 1992.

4.3.3.1. Services Provided By TPB Bank.

- **Savings Account.**

This is like any other normal savings accounts. Large amounts can be withdrawn with a notice of only one day. It earns interest at the end of the year. Account holders can deposit and withdraw from any of the bank's branches.

- **Fixed Deposit Account.**

This account is opened for a fixed amount, fixed period and fixed interest. Once it is opened for a fixed period no withdraw is done until the maturity, otherwise, if drawn prematurely the interest earned is withheld. Usually fixed deposit account earns high interest compare to other deposit accounts. (Source: Field work 2015)

- **Quick Account**

Is a savings account which uses either uhuru (ATMs) card or normal card to withdraw cash from all ATMs that have umoja switch logo, countrywide.

- **Current Account.**

This is a cheque account where by account holders can easily access their deposit and withdrawal facilities. This account does not earn interest and therefore it is assumed to be operated by a corporate customer. (Source: Field work 2015).

- **Minor account.**

This account has been designed for children (with under 18 years of age). Account is opened with parent/ guardian names on behalf of the child and it's operated by the parent/guardian until when the child reaches age of 18 years.

- **Salary account.**

Is a savings account that has been designed, specifically for employees to pass their salaries from employers to employees account.

- **Consumer Loans.**

These aims at assisting employees to borrow and repay their loans by using salaries. Securities such as land or vehicle are not required.

- **Micro credits.**

These aims at helping petty traders to improve and develop their small scale businesses.

- **Western union.**

Western union is one of the fast ways to transfer money worldwide, so it is the service that deals with sending and receiving money, and the receiver does not need to have bank account.

- **Tax collection.**

TPB do also collect various taxes/domestic revenue on behalf of TRA. This service is available at all TPB Branches countrywide.

- **Electronic payment services.**

Besides western union services, TPB has got other ways of transferring money and these are international transfer or TT and TISS.

- **Insurance.**

Tanzanian Postal Bank has been offering Insurance services since 1st February 2005, in offering these services, TPB is operating as an agent in partnership with another company called Astra Insurance Brokers.

- **Credit Facilities.**

This service is available to customers to enable them executing their business contracts and there are four types of these guarantees, namely

- (i) Bank guarantee,
- (ii) Bond guarantee.
- (iii) Performance Bond guarantee.
- (iv) Letter of credit.

4.3.4. Approaches used by PRIDE (T) in provision of microfinance services in rural areas in Tanzania.

The Promotion of Rural Initiatives and Development Enterprises (PRIDE) Tanzania started as a government project funded by the NORWEGIAN AGENCY FOR DEVELOPMENT (NORAD) through a bilateral agreement between the Government of Norway and the Government of Tanzania and was incorporated in 1993 as a company limited by guarantee without share capital. PRIDE Tanzania started operation in 1994. PRIDEs mission is to create a sustainable financial and information services network for

small and micro entrepreneurs in order to stimulate business growth, enhance income and generate employment in Tanzania.

4.3.4.1. Services Provided by Pride Tanzania

Pride offering banking services provide business training provides loans and other credit facilities also providing business advice and supervision. Financial services offered by PRIDE (T) are the money transfers, holding deposits, offering loans and payment services. PRIDE offered various business management skills training which include book keeping skills, marketing skills, credit management skills and customer care skills. The training offered by PRIDE helps them to conduct their business successfully, record their business properly. Clients get loans in group and start to receive loan amounts new entrants and the amount increases as they manage to repay the first amount. It is generally found that one's of the requirements to acquire loans from PRIDE is through groups. This lending scheme was adopted in order to increase loan security by sharing non repayment risk among group members. The scheme was said to be effective in ensuring better repayment. PRIDE follows Grameen model in providing services.

4.3.5. To identify the best approaches to be used in the provision of microfinance services in rural areas in Tanzania.

The best approach to be used in the provision of microfinance services in rural areas in Tanzania is the CRDB Bank approaches. The approaches of CRDB are the best because it assists people in rural areas to formulate groups and help them to register the group's to be SACCOS. Also CRDB provide training to the SACCOS and technical support. CRDB also provide loans to the SACCOS and advices. But other microfinance does not provide initial support, training and advice to the clients. NMB and TPB only provide loans in group but do not assist in formulation of that group, PRIDE also does not provide initial support

but provide loans with collateral of each member in the group and also provide training.

The loans conditions of CRDB are simple compare to other microfinance.

CHAPTER FIVE

5.0 SUMMARY CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

This chapter presents the summary of the findings on the assessment of the suitability of microfinance institutions on poverty alleviation among rural communities in Tanzania. The chapter also presents the conclusions, recommendations made based on the findings as well as suggestion for further research.

5.2. Purposes of the study

This study was done in order to assess the suitability of microfinance institutions on poverty alleviation among rural communities in Tanzania. More specifically the objectives of the study were:-

- (i) To find out the awareness of people in rural areas on services provided by Microfinance institutions in Tanzania.
- (ii) To find out approaches used in the provision of microfinance services.
- (iii) To identify the best approach to be used in the provision of microfinance Services.

5.3. Summary of Findings

The finding shows that 79% of male were aware of the presence of the provision of microfinance services, but only 21% of male respondents were not aware of the presence of the provision of microfinance service. Also the study shows that 72% of female in rural areas were aware of the presence of the provision of microfinance services but only 28% of female in rural areas were not aware of the presence of the provision of microfinance services. The study also shows that the male respondents have education level from primary

to first degree than female that's the level of education start from primary to secondary and only 6% of female have ordinary diploma. It means that the level of education affect the awareness of the presence of the provision of microfinance services. The study also shows that 58% of male in the sample size of 130 get microfinance services and 42% of female in sample size of 130 get microfinance services. These services offered by microfinance Institutions are loans, training, savings, advices and supervision, share and deposits. The combinations of these services offered by MFIs help clients to become more efficient in running their business.

The findings also show that different MFIs uses different approaches in provision of microfinance services in rural areas in Tanzania. CRDB Bank assist people in rural and urban areas to formulate group of people and help to register the group as SACCOS, also CRDB provide technical support to SACCOS and provides various types of Banking services to the SACCOS such as money transfers, insurance and the Tembo card to SACCOS members and non SACCOS members. Also in this study, the finding shows that NMB Bank, POSTAL Bank and PRIDE do not assist people in rural areas to formulate the group and help to register the group as SACCOS but only provide microfinance services to the members of the group already formed and non-members by provides microfinance services such as saving, deposits, loans, payment, money transfers, insurance etc.

The best approaches to be used in the provision of microfinance services in rural areas in Tanzania are the CRDB Bank approaches. The approaches of CRDB are the best because they assist people in rural areas to formulate groups and help them to register the group as a SACCOS. Also CRDB provide loans to the SACCOS and advices. But others MFIs do not provide initial support, training and advices to the clients. NMB Bank and TPB only

provide loans in groups but do not assist in the formulation of that group; PRIDE also does not provide initial support but provide loans with collateral of each member in the groups and provide training and advice. The loan condition of CRDB is simple compared to other microfinance institutions.

5.4. Conclusions

From the findings of this study, microfinance institutions are suitable for the alleviation of poverty among rural people. They enabled them to access loans which assist them in establishing micro businesses, payment of school fee for their children and improving standards of living of the people in rural communities. A good percentage of people in rural areas are aware of the presence of the provision of microfinance services in Tanzania. The services offered by Microfinance Institutions are loans, training, savings, advice, deposits and supervision. MFI provide services by using different approaches but the approaches used by the CRDB Bank appear to be the best of all the approaches used by the MFIs in Tanzania.

5.5. Recommendations

Due to the evidence gathered from the study, the following recommendations were made:-

- (i) More campaigns by MFIs should be made in order to create more awareness, among rural people of the provision of MFIs services.
- (ii) People in rural areas in Tanzania should be encouraged to use the services provided by microfinance institutions because the combinations of these services help clients to become more efficient in running their businesses and hence assist in poverty alleviation among rural communities in Tanzania.

(iii) The NMB Bank and the Tanzania postal Bank should adopt the approaches used by CRDB Bank in the provision of microfinance services to rural people .

(i v) The interest rate on loans given to rural people be set so as to attract more clients from the rural communities.

(v) The poor state of the infrastructure, especially rural roads should be improved by Government of Tanzania.

5.6. Suggestions for further Research

There is a need to do further studies in the following areas:-

1. As the interest rates have been observed to be a serious problem, there is a need to conduct a study to determine rates that would cater for the operating expenses of microfinance institutions and at the same time facilitate the growth of their clients business.
2. The assessment of the impact of microfinance institutions in Tanzania Economic.

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APPENDIX-A1**QUESTIONNAIRE FOR BENEFICIAL AND NON BENEFICIAL OF MICROFINANCE INSTITUTIONS (MFIs)**

Introductions:

I am undertaking a master of Business Administration (MBA) degree programmed at the Open University of Tanzania (OUT). I am now doing a research on suitability of microfinance institutions on poverty alleviation among rural communities in Tanzania at OUT.

I will highly appreciate to get your assistance to fill this two page questionnaire.

(i) Sex (what is your gender?)

(ii) Male ()

(iii)Female ()

(ii) How old are you?

1. 16yrs-20yrs

2. 21yrs - 25yrs.

3. 26yrs - 30yrs

4. 31yrs - 35yrs

5. 36yrs - 40yrs

6. 41yrs- 45yrs

7. 46yrs - 50yrs

8. 51yrs - 55yrs

9. 56 yrs - 60yrs

10. 61 yrs - 65yrs

11. 66yrs - 70yrs

(iii) What is your education level?

(a) Primary school ()

(iv) Graduates 1st degree ()

(v) Other levels of education (specify)

(iv) How many family members do you have?

() 0- 2 () 3- 5 members () 6 – 8 () 9 – 11 () 12 – 14

(v) Have you got any loan from VICOBA, WAWEKO, PRIDE, CRDB, NMB or any other MFIs?

(vi) How the loan affected your life?

(vii) Give a brief explanation on the interest rate charged by MFIs if it is reasonable or not.

(viii) What are the procedure of obtaining loan from MFIs

() Giving training before get loan

() Giving loan without training

() Giving a grace period for loan repayment

() Training on how to find markets

(ix) Your income has increased after get loan?

() yes () no

(x) Did you get training from VICOBA, WAWEKO, PRIDE or any MFIs before get loan?

() yes () no

(xi) Give a brief explanation on the suitability of MFIs for poverty alleviation among rural communities in Tanzania.

(xii) What approaches are used in the provision of microfinance services in rural areas from the following?

(a) Training

(b) Loans

(c) Advice (d) Saving

(xiii) To what extent are people in rural areas aware of the presence of the provision of microfinance services (eg, from NMB,CRDB,PRIDE)

Thank you very much for your cooperation.

APPENDIX-A2**QUESTIONNAIRE FOR MICROFINANCE INSTITUTIONS STAFF.****Introductions:**

I am undertaking a master of Business Administration (MBA) degree programmed at the Open University of Tanzania (OUT). I am now doing a research on suitability of microfinance institutions on poverty alleviation among rural communities in Tanzania at OUT.

I will highly appreciate to get your assistance to fill this two page questionnaire

(a) Sex (what is your gender?)

(vi) Male ()

(vii) Female ()

(b) How old are you?

12. 16yrs-20yrs

13. 21yrs - 25 yrs.

14. 26yrs - 30yrs

15. 31yrs - 35yrs

16. 36yrs - 40yrs

17. 41yrs- 45yrs

18. 46yrs - 50yrs

19. 51yrs - 55yrs

20. 56 yrs - 60yrs

21. 61 yrs - 65yrs

22. 66yrs - 70yrs

(c) Where do you live?

(d) Education level

(a) Primary school ()

(viii) Graduates 1st degree ()

(ix) Other levels of education (specify)

(e) How many family members do you have?

() 0 - 2 () 3 - 5 () 6 - 8 () 9 - 11 () 12 - 14

(f) Name of Institution.....

(g) Type of Institution

() Rural Bank

() Local NGOs

() Financial company

() Saving & Loans

() Credit unit

Other specify.....

(h) Does your Institution give credit to the productive poor?

() Yes

() No

(i) If “yes” in the item (3) how many clients does the institution presently have?

() 1- 20

() 21- 31

() 32- 42

() 43- 53

() 54- 64

() 65 and above

(j) Who are the main beneficiaries?

☐ Market woman

☐ Farmers

☐ Government workers

☐ Self employed

(k) Does your Institution take collateral before given out loans to clients?

☐ Yes

☐ No

(l) If “yes” in item (6) what did you use as loan collateral?

☐ Land

☐ House

☐ Farm or other.....

(m) On the average how long does it take your institution to disburse credit?

☐ Less than 2 weeks

☐ 2 -3 weeks

☐ 4-5 weeks

☐ More than 6 weeks

(n) Does the loans helps clients:-

(i)Alleviating poverty ☐

(ii)To improving standard of living ☐

(iii) To improve business ☐

(iv) All of them ☐

(o) Do the microfinance Institution suitable in poverty alleviation?

☐ Yes

☐ No

16. What the size of loan offered to the members

(a)Above Tsh.10M ()

(b)Tsh. 6-10M, ()

(c) Below Tsh. 5m ()

Thank you very much for your cooperation.

APPENDIX-A3

SAMPLE SIZE TABLE USED IN STUDY.

Required Sample Size [†]								
Population Size	Confidence = 95%				Confidence = 99%			
	Margin of Error				Margin of Error			
	5.0%	3.5%	2.5%	1.0%	5.0%	3.5%	2.5%	1.0%
10	10	10	10	10	10	10	10	10
20	19	20	20	20	19	20	20	20
30	28	29	29	30	29	29	30	30
50	44	47	48	50	47	48	49	50
75	63	69	72	74	67	71	73	75
100	80	89	94	99	87	93	96	99
150	108	126	137	148	122	135	142	149
200	132	160	177	196	154	174	186	198
250	152	190	215	244	182	211	229	246
300	169	217	251	291	207	246	270	295
400	196	265	318	384	250	309	348	391
500	217	306	377	475	285	365	421	485
600	234	340	432	565	315	416	490	579
700	248	370	481	653	341	462	554	672
800	260	396	526	739	363	503	615	763
1,000	278	440	606	906	399	575	727	943
1,200	291	474	674	1067	427	636	827	1119
1,500	306	515	759	1297	460	712	959	1376
2,000	322	563	869	1655	498	808	1141	1785
2,500	333	597	952	1984	524	879	1288	2173
3,500	346	641	1068	2565	558	977	1510	2890
5,000	357	678	1176	3288	586	1066	1734	3842
7,500	365	710	1275	4211	610	1147	1960	5165
10,000	370	727	1332	4899	622	1193	2098	6239
25,000	378	760	1448	6939	646	1285	2399	9972
50,000	381	772	1491	8056	655	1318	2520	12455
75,000	382	776	1506	8514	658	1330	2563	13583
100,000	383	778	1513	8762	659	1336	2585	14227
250,000	384	782	1527	9248	662	1347	2626	15555
500,000	384	783	1532	9423	663	1350	2640	16055
1,000,000	384	783	1534	9512	663	1352	2647	16317
2,500,000	384	784	1536	9567	663	1353	2651	16478
10,000,000	384	784	1536	9594	663	1354	2653	16560
100,000,000	384	784	1537	9603	663	1354	2654	16584
300,000,000	384	784	1537	9603	663	1354	2654	16586

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